

**Guernsey Banking Deposit Compensation Scheme**

Annual Report and Financial Statements

Year Ended

31 December 2020

# Guernsey Banking Deposit Compensation Scheme

## Scheme Information

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**Board Members** Rick Denton (Chairman)  
Steve Hogg  
William Simpson  
Diane Colton

**Registered office** PO Box 33  
Dorey Court  
Admiral Park  
St Peter Port  
Guernsey  
GY1 4AT

# Guernsey Banking Deposit Compensation Scheme

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The detailed profit and loss account is not audited and does not form part of the audited financial statements of the Scheme.

# Guernsey Banking Deposit Compensation Scheme

## Chairman's Annual Report For the Year Ended 31 December 2020

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### **Chairman's Annual Report 2020**

During the course of last year, there has been no change in the composition of the Board which has the following Members:

Diane Colton	
Rick Denton	Chairman
Steve Hogg	
William Simpson	Deputy Chairman

### **Financial Statements for the Year Ended 31 December 2020**

The Financial Statements for the year ended 31 December 2020 show an erosion of the Scheme's reserves of £37,865 compared to £12,262 for the year ended 31 December 2019. This is considered reasonable given the continued investment in improvement projects during the period and the Board considers the Scheme's remaining reserves a satisfactory position for its continuing operation, although fees will be reviewed in 2021 to ensure the Scheme can continue to achieve its purpose and with the aim of improving reserves to enable further systems development.

### **Banking Industry in Guernsey**

The Board considers it important to inform its stakeholders of key features of the current banking industry in Guernsey to provide the context in which the Scheme operates, before outlining its future plans.

The number of licences issued to banks was static at 22 for the year but two banks served notice of intention to surrender their licenses in 2021. Since the inception of the Scheme, the number of licensed banks in the Bailiwick has fallen from 45.

These reductions have been led from the banks' overseas headquarters and reflects the trends of increasing consolidation and streamlining by these multinational institutions. Changes to the regulatory requirements have also led banks to critically review their infrastructure and jurisdictional coverage.

However, total deposits have increased over the last decade, demonstrating that investors continue to recognise Guernsey as a safe and leading International Financial Centre.

The emergence and spread of the new Coronavirus has caused volatility across financial markets and significant disruption to the economy resulting in an increase in non-performing loans and pressure on capital adequacy/liquidity. As a result, the Scheme and international Deposit Compensation Scheme bodies remain in a state of heightened alert and a need to ensure readiness to support their local communities. The Scheme has worked closely with the Association of Guernsey Banks (AGB) during this time and remains vigilant should an event occur. The Board updated the Scheme's Memorandum of Understanding (MOU) with the Guernsey Financial Services Commission (GFSC) on 27 November 2020 and regular meetings are held between our two organisations recognising the pivotal role we each have in the Bailiwick's financial stability.

### **International Standards**

The Board have identified two sets of global standards by which deposit compensation schemes can benchmark themselves.

The first is the International Association of Deposit Insurer's (IADI) Core Principles for Effective Deposit Compensation Systems (the Core Principles). First published in November 2014, the Board reviewed its previous analysis of its compliance with these principles during 2017, noting several areas of interest and development.

# Guernsey Banking Deposit Compensation Scheme

## Chairman's Annual Report (continued) For the Year Ended 31 December 2020

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These have been key drivers for the continued improvement of the Scheme during the last two years, informing the development of workstreams for the Board and Aon Services (Guernsey) Limited as our Manager which are outlined below. Ms Colton began a further review against the Core Principles in 2020 and the Board will continue to work to meet the IADI standards where these are consistent with the public policy objectives and legal framework established by the States of Deliberation in 2008. However, further to the decision announced in last year's report, the Board has been working more closely with the European Forum of Deposit Insurers (EFDI) as a guiding body given their more proactive stance to ensure the Scheme's readiness and the greater availability of guidance and support given.

Secondly, although the Bailiwick and the Scheme fall outside the European Union (EU), the EU's Deposit Compensation Scheme Directive is considered an important influence given it provides guidance on the standards of deposit compensation schemes throughout Europe.

Given the Bailiwick's status as an International Financial Centre, the Board considers it important to ensure the Scheme's response to a default scenario will be in line with our international counterparts.

### **Co-operation with external parties**

We have continued to hold discussions with important stakeholders and have enjoyed a constructive dialogue with:

- Association of Guernsey Banks
- Channel Islands Ombudsman
- Deposit Guarantee and Investment Compensation Foundation PCC (EAS Liechtenstein)
- Gibraltar Deposit Guarantee Scheme
- Guernsey Financial Services Commission
- Isle of Man Depositors Compensation Scheme
- Jersey Banking Deposit Compensation Scheme
- UK Financial Services Compensation Scheme
- European Forum of Deposit Insurers
- Affiliation of Micro European States
- Depositors

The Board continued its active participation in EFDI, attending online conferences to develop relationships and enhance our understanding of both the IADI Core Principles and developments in the deposit compensation environment globally. The Scheme joined the EFDI Fintech Project initiative during 2019 and participated in a Business Continuity Readiness Project in January 2020. It has also gained knowledge by attending the EFDI Public Awareness Working Group sessions. As mentioned in last year's report, the Scheme resigned from being a Member of IADI with effect from 1 April 2020 due to an increase in the membership fees resulting in the Board no longer viewing membership as cost-effective. We consider compliance with IADI standards is paramount and if the Association is inclined to reduce fees in the future we would hope to rejoin.

Within EFDI we have played a leading role in the formation and development of the Affiliation of Micro European States Subgroup (AMES). This body, comprised of smaller jurisdictions, initially including the other Crown Dependencies, Gibraltar and Liechtenstein, aims to facilitate the sharing of resources, exchange of information and to allow the jurisdictions to progress projects of mutual interest in a uniform manner. During the year, the organisation has grown to include Iceland and San Marino. Our Single Customer View (SCV) project, which aims to facilitate all constituent banks being able to automatically report data on deposits which may be compensated for each customer across multiple accounts, is an example of how this collaboration can benefit multiple jurisdictions, the banks and depositors by sharing resources and achieving a consistent high standard.

The Scheme continues to ensure that its website [www.dcs.gg](http://www.dcs.gg) is up to date and that all local banks are correctly distributing the latest edition of the Scheme's information leaflet (last amended in December 2017).

# Guernsey Banking Deposit Compensation Scheme

## Chairman's Annual Report (continued) For the Year Ended 31 December 2020

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Given the importance of the Scheme's website to our communication with the public, the Board upgraded the website, including changing the infrastructure during 2019 to ensure the website continues to be secure whilst facilitating the changes required to increase the efficiency of data collection in a default scenario.

Our Manager continues to receive enquires about the application of the Scheme from both the general public and corporates. These are referred to the Board as appropriate. The Manager has also ensured the Scheme is compliant with the General Data Protection Regulations in respect to any personal data held.

### **Funding of the Scheme**

The reduction in the number of Licensed Banks in the Bailiwick reduces the base from which the Scheme can charge administrative levies and, in the event of a default, compensation levies. The implications in respect of this reduction have been reviewed by the Board and the Scheme has begun to develop plans to mitigate the impact.

To ensure the Scheme has immediate funds available in the event of a bank default and any time delay in receiving funds levied from other Guernsey based banks, the Scheme has arranged for a liquidity facility of £15m with the States of Guernsey. This facility was formalised during 2019. The facility has an annual fee of £15,000.

The administrative levy for the year ending 31 December 2021 increased to £13,000 (2019: £10,000) per annum to help replenish decreasing reserves whilst spending more on projects for essential improvements. The budgeted administrative income remains in line with that proposed in the 2008 policy paper before inflation.

### **Ordinance amendments**

The current Ordinance, upon which the Scheme was founded, was reviewed during 2017 and 2018 in a process stimulated by a review of the Scheme's alignment with the Core Principles. The review identified that, due to developments in the global deposit compensation scheme environment, the Ordinance is too restrictive operationally and does not address several issues identified in international deposit scheme practice since its initial drafting. In response to this assessment, the Board began a project to seek the redrafting of the statute and to improve legal protection for depositors. Progress has been made during 2020 with several key improvements already made. At the same time there have been parallel developments in Preferred Creditor Protection and the creation of a Resolution body on which we have been co-operating and liaising with the States Finance Sector Development team. The Scheme thanks them for their work and assistance in this regard.

### **Operational improvements**

The Scheme is continuing to review deposit data of the Bailiwick's Licensed Banks to ensure it has the necessary information to enable it to react efficiently in any default scenario, supported by appropriate operating procedures and systems. The importance of data presentation to meet international standards has been highlighted as a development area through our increased participation with EFDI and IADI; where the standardisation of information from Licensed Banks has been proven to have a hugely positive impact on a scheme's ability to respond to default scenarios. The SCV project is perhaps our most ambitious in the history of the Scheme and this is being managed with support from the AGB and other stakeholders.

Processes and procedures in the event of a default, to ensure compensation is as efficient as possible, continue to be a matter of discussion both locally and amongst other jurisdictions. To this end, the Board has identified areas which could expedite the process and reduce costs, both through its review of international standards and following discussions with other Deposit Compensation Scheme representatives. Some progress was made during the year, but more will follow the implementation of SCV which has a target completion date of 31 December 2021.

A key step to ensure operational efficiency is our ongoing testing programme. The Board has worked closely with Aon as the Manager to provide improved cyber security and assess the impact of Covid-19, including testing to ensure that our proposed method of remote working and communications was secure.

# Guernsey Banking Deposit Compensation Scheme

Chairman's Annual Report (continued)  
For the Year Ended 31 December 2020

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## **Cross Border Co-operation**

A further area of development is in respect to management of cross border issues during a bank failure and pay out to international depositors that use local banks. This is an item of critical importance as identified by the Core Principles, and something the Board also recognises as being key given the multinational nature of the Bailiwick's banks and customers. A default scenario of any bank is likely to require international co-operation and to this end the Scheme is working to improve dialogue and understanding of the cross-border issues through increased participation in international bodies. The establishment of the AMES Subgroup in EFDI demonstrates both the Board's commitment to international co-operation and to learn from this engagement, as well as benefiting from sharing of resources and applying the specialist knowledge of other jurisdictions.

## **Values**

During 2020 the Board adopted a Values Statement which is presented below.

## **Transparency**

We strive for clear, open, and timely communication with all our stakeholders.

## **Accountability**

We take personal and collective responsibility for discharging our statutory obligations to ensure the Scheme is robust.

## **Community focused**

We aim to raise awareness of and engagement with the community and its needs and to make an ongoing contribution to the stability of the financial sector in Guernsey.

We engage with our local community to understand and represent its needs in contributing to the stability of the Guernsey banking sector.

## **Integrity**

We are strongly committed to behaving ethically by acting fairly and consistently and by delivering to the best possible standards.

## **Committed Teamwork**

We demonstrate collective commitment to the success of the Scheme by cultivating a positive team culture and finding solutions and achieving results collaboratively.

We work positively together to identify solutions and achieve results.

# Guernsey Banking Deposit Compensation Scheme

Chairman's Annual Report (continued)  
For the Year Ended 31 December 2020

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## **A Personal Note**

Personally, I am proud of the work being achieved by our Board and their commitment to introduce continual improvements to the Guernsey Banking Deposit Compensation Scheme in line with international standards. This work will continue to enhance the reputation of the strong Guernsey banking industry and the wider reputation of the jurisdiction for its financial stability.

DocuSigned by:



Richard L. Denton

Chairman of the Board,  
Guernsey Banking Deposit Compensation Scheme



# Guernsey Banking Deposit Compensation Scheme

## Board Report For the Year Ended 31 December 2020

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The Board presents their report and the financial statements for the year ended 31 December 2020.

### **Board's responsibilities statement**

The Board are responsible for preparing the Scheme financial statements in accordance with applicable law and generally accepted accounting practice.

The Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008 ("the Ordinance") requires the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Scheme and of the profit or loss of the Scheme for that period.

In preparing these financial statements, the Board are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Scheme will continue in operation.

The Board are responsible for keeping adequate accounting records that are sufficient to show and explain the Scheme's transactions and disclose with reasonable accuracy at any time the financial position of the Scheme and which enable them to ensure that the financial statements comply with the Banking Deposit Scheme (Bailiwick of Guernsey) Ordinance 2008. They are also responsible for safeguarding the assets of the Scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Principal activity**

The principal activity of the Scheme is the administration of the Scheme which was established by the States of Guernsey on 26 November 2008.

### **Results**

The Statement of Comprehensive Income for the year is set out on page 11.

### **Board**

The members of the Board who served during the year were:

Rick Denton (Chairman)  
Steve Hogg  
William Simpson  
Diane Colton

# Guernsey Banking Deposit Compensation Scheme

## Board Report (continued) For the Year Ended 31 December 2020

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### Independent auditor

The auditor, BDO Limited, is deemed to be reappointed in accordance with the Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance 2008 by virtue of an elective resolution passed by the members on 21 January 2015.

This report was approved by the board on 14 June 2021 and signed on its behalf on 24 June 2021.

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Chairman

# Guernsey Banking Deposit Compensation Scheme

## Independent Auditor's Report to the Board of the Guernsey Banking Deposit Compensation Scheme

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### Opinion on the financial statements

In our opinion, the financial statements of the Guernsey Banking Deposit Compensation Scheme (the "Scheme"):

- give a true and fair view of the state of the Scheme's affairs as at 31 December 2020 and of its loss for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

We have audited the financial statements of the Scheme for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("United Kingdom Generally Accepted Accounting Practice").

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Board with respect to going concern are described in the relevant sections of this report.

### Other information

The Board is responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# Guernsey Banking Deposit Compensation Scheme

## Independent Auditor's Report to the Members of Guernsey Banking Deposit Compensation Scheme (continued)

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### Responsibilities of the Board

As explained more fully in the Board's responsibilities statement within the Board Report, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Scheme or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the Scheme and the environment in which it operates, we identified that the principal risk of non-compliance with laws and regulations related to the operation of the Scheme, and we considered the extent to which non-compliance might have a material effect on the Scheme's financial statements.

We also considered those laws and regulations that have a direct impact on the financial statements such as the Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of management override of controls) and determined that the principal risk was related to management bias in preparation of the financial statements, particularly with regard to journals posted in the accounting records.

Audit procedures performed by the engagement team to respond to the risk identified included:

- Discussions with management and those charged with governance, reading minutes of meetings of the Board and reviewing correspondence with the States of Guernsey including consideration of known or suspected instances of non-compliance with laws and regulations; and
- Review and challenge of accounting records including review of the general ledger inclusive of journal transactions.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected

## Guernsey Banking Deposit Compensation Scheme

### Independent Auditor's Report to the Members of Guernsey Banking Deposit Compensation Scheme (continued)

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#### Extent to which the audit was capable of detecting irregularities, including fraud (Continued)

in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available at the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### Use of our report

This report is made solely to the Scheme's Board, as a body. Our audit work has been undertaken so that we might state to the Scheme's Board those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Scheme's Board, as a body, for our audit work, for this report, or for the opinions we have formed.

*BDO Limited*

Chartered Accountants  
Place du Pré  
Rue du Pré  
St Peter Port  
Guernsey

Date 28 June 2021

## Guernsey Banking Deposit Compensation Scheme

### Statement of Comprehensive Income For the Year Ended 31 December 2020

	Note	2020 £	2019 £
Income	4	220,158	231,677
Administrative expenses		(258,032)	(244,447)
<b>OPERATING LOSS</b>		<b>(37,874)</b>	<b>(12,770)</b>
Interest receivable and similar income		9	507
<b>LOSS FOR THE FINANCIAL YEAR</b>		<b>(37,865)</b>	<b>(12,263)</b>

There was no other comprehensive income for 2020 (2019: £NIL).

The notes on pages 15 to 18 form an integral part of these financial statements.

## Guernsey Banking Deposit Compensation Scheme

### Statement of Financial Position As at 31 December 2020

	Notes	2020 £	As restated 2019 £
<b>CURRENT ASSETS</b>			
Debtors: amounts falling due within one year	5	91,000	35,083
Cash at bank		333,286	340,298
		424,286	375,381
Creditors: amounts falling due within one year	6	(370,391)	(283,621)
<b>NET CURRENT ASSETS</b>		<b>53,895</b>	91,760
<b>NET ASSETS</b>		<b>53,895</b>	91,760
<b>CAPITAL AND RESERVES</b>			
Profit and loss account		53,895	91,760
		<b>53,895</b>	91,760

The financial statements were approved and authorised for issue by the Members of the Board and were signed on its behalf by:

DocuSigned by:  
  
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 Board Member

Date: 25-Jun-2021

DocuSigned by:  
  
 111017008164400.....  
 Board Member

The notes on pages 15 to 18 form an integral part of these financial statements.

## Guernsey Banking Deposit Compensation Scheme

### Statement of Changes in Equity For the Year Ended 31 December 2020

	Profit and loss account	Total equity
	£	£
At 1 January 2020	91,760	91,760
Loss for the year	(37,865)	(37,865)
<b>AT 31 DECEMBER 2020</b>	<b>53,895</b>	<b>53,895</b>

### Statement of Changes in Equity For the Year Ended 31 December 2019

	Profit and loss account	Total equity
	£	£
At 1 January 2019	104,023	104,023
Loss for the year	(12,263)	(12,263)
<b>AT 31 DECEMBER 2019</b>	<b>91,760</b>	<b>91,760</b>

The notes on pages 15 to 18 form an integral part of these financial statements.



## Guernsey Banking Deposit Compensation Scheme

### Statement of Cash Flows For the Year Ended 31 December 2020

	2020 £	2019 £
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the financial year	(37,865)	(12,263)
<b>ADJUSTMENTS FOR:</b>		
(Increase)/decrease in debtors	(55,917)	28,190
Bank interest receivable	(9)	(507)
Increase/(decrease) in creditors	86,770	(7,220)
	(7,021)	8,200
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Bank interest received	9	507
	9	507
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at beginning of year	340,298	331,591
Cash and cash equivalents at the end of the year	333,286	340,298

The notes on pages 15 to 18 form an integral part of these financial statements.

# Guernsey Banking Deposit Compensation Scheme

## Notes to the Financial Statements For the Year Ended 31 December 2020

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### 1. Accounting policies

#### 1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland ("FRS 102").

The Guernsey Banking Deposit Compensation Scheme (the "Scheme") was established in Guernsey on 26 November 2008 by the States of Guernsey. The Board acts as an administrator to the Scheme in order to collect levies from Guernsey banks. The Scheme's registered office can be seen on the Scheme Information page. Note that the Board consider the Scheme to be a Public Benefit Entity (PBE) has been defined in FRS 100 as an entity whose primary objective is to provide goods or services for the general public community or social benefit and where any equity is provided with a view to supporting the entity's primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members.

The Scheme's functional and presentation currency is Sterling ("GBP"), being the primary currency of the economic environment in which the Scheme operates.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Scheme accounting policies.

The following principal accounting policies have been applied:

#### 1.2 Going concern

The Board has prepared the financial statements on a going concern basis. The Board have considered the potential impact of the COVID-19 pandemic on the Scheme and its ability to continue as a going concern. All of the assets are held in cash with banks of a rating of at least A- on S&P. There is not a significant amount owed in the case of debtors to the Scheme and the majority of the creditors are the levies for 2020 received in advance. The Board are satisfied that the Scheme is a going concern.

The Board has the power to levy the Participants of the Scheme on an annual basis to cover the expected costs of the forthcoming year.

The Scheme has entered into a loan facility arrangement with the States of Guernsey for £15,000,000 which is available for drawdown in the event of a default by a licensed bank.

#### 1.3 Income and deferred income

Income is recognised in the Statement of Comprehensive Income on an accruals basis. Fees received in advance are deferred over the period to which they relate.

#### 1.4 Debtors

Short term debtors are measured at their transaction price, less any impairment.

#### 1.5 Cash at bank

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

#### 1.6 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

# Guernsey Banking Deposit Compensation Scheme

## Notes to the Financial Statements (continued) For the Year Ended 31 December 2020

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### 1. Accounting policies (continued)

#### 1.7 Financial instruments

Financial assets and financial liabilities are recognised when the Scheme becomes party to the contractual provisions of the instrument.

Financial liabilities are classified according to the substance of the contractual arrangement entered into.

##### i. Initial recognition and subsequent measurement

All financial assets and financial liabilities are initially measured at transaction price (including transaction cost), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction cost), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a marked rate of interest for a similar debt instrument.

During the year no gain or loss was made on the financial assets therefore no gain or loss has been recognised through profit or loss.

Financial assets and financial liabilities are offset in the Statement of Financial Position when, and only when, there is a legally enforceable right to offset the recognised amounts and the Scheme intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

##### ii. Derecognition of financial instruments

Financial assets are derecognised when and only when:

- a) the contractual right to the cash flows from the financial asset expire or are settled,
- b) the Scheme transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or
- c) the Scheme, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

##### iii. Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

# Guernsey Banking Deposit Compensation Scheme

## Notes to the Financial Statements (continued) For the Year Ended 31 December 2020

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### 1. Accounting policies (continued)

#### 1.7 Financial instruments (continued)

##### iv. Impairment of financial assets

The Board assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Board first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Board determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Statement of Comprehensive Income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed through the Statement of Comprehensive Income.

#### 1.8 Profit and loss reserve

The Scheme's reserves comprise the cumulative profits (or losses) net of any adjustments.

### 2. Prior period adjustment

The trade debtors as at 31 December 2019 did not recognise administrative levy receivable for 2020 totalling £30,000. The prior year deferred income and trade debtors has been restated to reflect the total administrative levy receivable in 2019 totalling £31,667 and deferred income of £220,000.

### 3. Financial Reporting Council Ethical Standard - Provisions Available for Small Entities

In common with many other entities of its size and nature the Scheme uses its auditor to assist with the preparation of the financial statements.

### 4. Taxation

In accordance with the Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008 the Scheme is exempt from tax. Provision had therefore not been made in these financial statements for Guernsey Income Tax.

### 5. Income

During the year the main source of income was obtained from 22 Participant banks of £10,000 per Bank (2019: 23 Participant Banks at £10,000).

## Guernsey Banking Deposit Compensation Scheme

### Notes to the Financial Statements (continued) For the Year Ended 31 December 2020

6. Debtors: amounts falling due within one year	2020 £	2019 £
Trade debtors	91,000	31,667
Prepayments and accrued income	-	3,416
	91,000	35,083
	91,000	35,083
<b>7. Creditors: amounts falling due within one year</b>	<b>2020 £</b>	<b>2019 £</b>
Accruals	(84,391)	(63,621)
Deferred income	(286,000)	(220,000)
	(370,391)	(283,621)
	(370,391)	(283,621)

#### 8. Related party transactions

Key management personnel include all members of the Board who together have authority and responsibility for planning, directing and controlling the activities of the Scheme. The total compensation paid to key management personnel for services provided to the Scheme was £85,000 (2019: £85,000). At 31 December 2020, £21,250 (2019: £21,250) was outstanding and is included within accruals.

#### 9. Controlling party

The Scheme is established under the Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008 and is under the direction of the Board. The Board members are appointed by the States of Guernsey Committee for Economic Development. There is no ultimate controlling party.

## Guernsey Banking Deposit Compensation Scheme

Unaudited Detailed Profit and Loss Account

For the Year Ended

31 December 2020

**THE FOLLOWING PAGE DOES NOT FORM A  
PART OF THE AUDITED FINANCIAL  
STATEMENTS OF THE SCHEME AND IS  
PRESENTED FOR INFORMATION PURPOSES  
ONLY**

## Guernsey Banking Deposit Compensation Scheme

### Unaudited detailed profit and loss account For the Year Ended 31 December 2020

	2020 £	2019 £
Income	220,158	231,677
Administration expenses	(258,032)	(244,447)
<b>Operating loss</b>	<b>(37,874)</b>	<b>(12,770)</b>
Interest receivable	9	507
<b>Loss for the year</b>	<b>(37,865)</b>	<b>(12,263)</b>
<b>Turnover</b>		
Income - fees	220,158	231,677
<b>Administration expenses</b>		
Board Members' fees	85,000	85,000
Consultancy fees	4,219	12,000
Management fees	102,400	100,000
Sundry expenses	170	134
Disaster recovery costs	12,363	12,364
Legal and professional fees	3,416	13,524
Audit fees	6,875	5,250
Travel and meeting expenses	2,229	8,146
Printing and stationary	3,590	6,138
Website design and maintenance	10,407	1,145
Facility fees	26,250	-
Bank charges	1,113	746
	<b>258,032</b>	<b>244,447</b>
<b>Interest receivable</b>		
Bank interest receivable	9	507